

**LENAWEE TRANSPORTATION CORPORATION**

**FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2007**

**WITH  
INDEPENDENT AUDITORS' REPORT**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name LENAWEE TRANSPORTATION CORP.	County LENAWEE
Fiscal Year End SEPTEMBER 30, 2007		Opinion Date OCTOBER 31, 2007		Date Audit Report Submitted to State DECEMBER 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

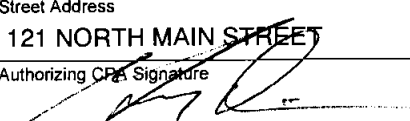
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NOT NEEDED THIS YEAR (SEE NOTES SIGNATURE DEFICIENCIES on PGs 516)	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ROBERTSON, EATON AND OWEN P.C.		Telephone Number (517) 265-6154	
Street Address 121 NORTH MAIN STREET		City ADRIAN	State MI
Zip 49221		License Number 1101008646	
Authorizing CPA Signature 		Printed Name GARY E. OWEN	

**LENAWEE TRANSPORTATION CORPORATION**

**INDEPENDENT AUDITORS' REPORT**

**TABLE OF CONTENTS**

<b>FINANCIAL STATEMENTS</b>	<b>PAGE NUMBER</b>
Management's Discussion & Analysis	i – iv
Independent Auditors' Report	1 – 2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3 – 6
Statements of Net Assets	7
Statements of Revenues, Expenses and Changes in Fund Net Assets	8
Statements of Cash Flows	9 – 10
Notes to Financial Statements	11 – 14
 <b>SUPPLEMENTARY INFORMATION</b>	
Schedule 1/4R – Nonurban Service Revenue Report	15
Schedule 2 – Expenditures of Federal and State Grants –	16
Schedule 3 – Schedule of Expenses for General and Contract Operations	17
Schedule 4E (REG) – Nonurban Regular Service Expense Report	18
Schedule 4E (JARC) – JARC Service Expense Report	19
Schedule 4N - Nonurban Service Nonfinancial Report	20
Schedule 5 - Operating Assistance Calculation	21
Notes of Ineligible Expenses and Revenues	22
Schedule 6 - Comments and Recommendations	23

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2007**

Our discussion and analysis of Lenawee Transportation Corporation's financial statements provides an overview of the Transportation Corporation's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of the Transportation Corporation and present a long-term view of the Transportation Corporation's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **Overview of the Financial Statements**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Transportation Corporation's overall financial status. These statements report information about the Transportation Corporation, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Transportation Corporation's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Transportation Corporation's financial health or position.
- The third statement is the Statements of Cash Flows which show the change in cash and cash equivalents presenting all activity of the Transportation Corporation on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

## Reporting the Transportation Corporation as a Whole

### Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information about the Transportation Corporation, as a whole, and about its activities in a way that helps answer the question of whether the Transportation Corporation, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transportation Corporation's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Transportation Corporation's net assets and how they have changed. The reader can think of the Transportation Corporation's net assets (the difference between assets and liabilities) as one way to measure the Transportation Corporation's financial health or financial position. Over time, increases or decreases in the Transportation Corporation's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transportation Corporation, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

### Fund Financial Statements

The Transportation Corporation has only one fund, the General Operating Fund, in which all of the Transportation Corporation's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

### Financial Analysis of the Transportation Corporation as a Whole

The Transportation Corporation's net assets decreased approximately 11% from \$301,054 to \$266,626 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

#### Net Assets

The net assets decreased by \$34,428 during 2006-07. The primary reason for the decrease was depreciation expense, which was \$36,019.

There were no new capital assets purchased in fiscal year 2006-07.

Net assets for the years ended September 30, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Current assets	\$ 232,106	\$ 222,848
Capital assets	<u>77,805</u>	<u>113,824</u>
Total assets	<u>309,911</u>	<u>336,672</u>
Current liabilities	<u>43,285</u>	<u>35,618</u>
Total liabilities	<u>43,285</u>	<u>35,618</u>
Net assets:		
Invested in capital assets	77,805	113,824
Unrestricted	<u>188,821</u>	<u>187,230</u>
Total net assets	<u>\$ 266,626</u>	<u>\$ 301,054</u>

### Changes in Net Assets

A summary of changes in net assets for the years ended September 30, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Operating revenue	\$ 143,343	\$ 151,299
Nonoperating revenue	<u>379,327</u>	<u>329,635</u>
Total revenues	522,670	480,934
Operating expenditures	<u>(557,098)</u>	<u>(540,413)</u>
Decrease in net assets	<u>\$ (34,428)</u>	<u>\$ (59,479)</u>

### Budgetary Highlights

#### General Fund Budgetary Highlights

For the fiscal year of 2007, significant budget differences were primarily in the cost of fuel, and other materials and supplies. Also, our depreciation expense was not included in the budget.

Sustained spikes in fuel were not expected and our aging fleet required specialized mechanical attention that was not anticipated. Wages and fringe benefits were slightly higher than forecasted, however; we did experience a reduction in insurance premiums. We also secured over \$7,500 in capital funding to offset maintenance expenses which provided a positive impact on our budget.

### Capital Assets

As of September 30, 2007, the Transportation Corporation had invested \$884,479 in capital assets.

	<u>2007</u>	<u>2006</u>
<b>Capital Assets Being Depreciated</b>		
Equipment	\$ 95,315	\$ 95,315
Vehicles	<u>789,164</u>	<u>789,164</u>
Total capital assets	884,479	884,479
Total accumulated depreciation	<u>(806,674)</u>	<u>(770,655)</u>
Total net capital assets	<u>\$ 77,805</u>	<u>\$ 113,824</u>

### **Economic Factors and Next Year's Budget**

For fiscal year 2008, we are anticipating the State formula operating assistance to be estimated at 38.62 percent of eligible expenses or the floor (minimum) which is equivalent to the state funds received in FY 1997. This minimum is contingent upon the level of local funds remaining the same. However; if the local funds are reduced, the state funds would be reduced proportionally. We are currently at our floor. Our Federal Section 5311 operating assistance is anticipated at 15 percent of eligible expenses.

Medicaid suffered a reduction at the State level which reduced the hours of services available to several of our passengers. Because of the funding reduction, their need for transportation services has also been reduced. This negatively impacts our budget and may cause a need to review the current charge structure.

We have over \$10,000 available in capital funding to utilize for maintenance expenses.

This financial report is designed to provide the citizens and other interested parties a general overview of the Transportation Corporation's finances and to show the Transportation Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lenawee Transportation Corporation, 100 East Church Street, Michigan 49221.

To the Board of Directors  
Lenawee Transportation Corporation  
Adrian, Michigan

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities of Lenawee Transportation Corporation, a Nonprofit Corporation, as of and for the years ended September 30, 2007 and 2006, which comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lenawee Transportation Corporation's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lenawee Transportation Corporation, as of September 30, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of the Lenawee Transportation Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



To the Board of Directors  
Lenawee Transportation Corporation  
Adrian, Michigan

The management's discussion and analysis on pages i through iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that comprise Lenawee Transportation's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lenawee Transportation Corporation. Such information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

***Robertson, Eaton & Owen, P.C.***

Adrian, Michigan  
October 31, 2007

October 31, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Lenawee Transportation Corporation  
Adrian, Michigan

We have audited the financial statements of the business-type activities of Lenawee Transportation Corporation, a Nonprofit Corporation, as of and for the year ended September 30, 2007, which comprise Lenawee Transportation Corporation's basic financial statements and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Lenawee Transportation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a

October 31, 2007

To the Board of Directors  
Lenawee Transportation Corporation  
Adrian, Michigan

remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control over financial reporting. We considered the deficiencies described as 2007-1 through 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 through 2007-2, are not material weaknesses.

#### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Lenawee Transportation Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lenawee Transportation's response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Lenawee Transportation's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of Lenawee Transportation Corporation and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Robertson, Eaton & Owen, P.C.***

Adrian, Michigan  
October 31, 2007

**LENAWEE TRANSPORTATION CORPORATION**

**SCHEDULE OF FINDINGS AND RESPONSES**

**JUNE 30, 2007**

Finding 2007-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the Lenawee Transportation Coordinator prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The Coordinator does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

**LENAWEE TRANSPORTATION CORPORATION**

**SCHEDULE OF FINDINGS AND RESPONSES**

**JUNE 30, 2007**

Finding 2007-2

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

Currently there is limited segregation of conflicting duties of initiating transactions, and the recording of those transactions

Cause

Lenawee Transportation has a limited number of personnel.

Effect

Segregation of duties would provide another measure of internal control to provide the ability of the Organization to determine, in a reasonable amount of time, whether all transactions initiated are recorded and reported timely and accurately.

Recommendation

Lenawee Transportation should consider additional personnel to promote enhancement of better internal control through having appropriate segregation of duties.

Client Response

Because of limited economic resources, it is not practical to hire additional staff for internal control purposes. The current system we think is adequate.

# LENAWEE TRANSPORTATION CORPORATION

## STATEMENTS OF NET ASSETS

September 30, 2007 and 2006

	<u>Business-Type Activity</u>	
	<u>General Operating</u>	
ASSETS	<u>2007</u>	<u>2006</u>
<b>Current assets:</b>		
Cash	\$ 156,333	\$ 118,242
Accounts receivable	20,215	14,844
Grants receivable	45,974	36,458
Interest receivable	648	490
Due from City	6,390	6,543
Prepaid expense	<u>2,546</u>	<u>46,271</u>
Total current assets	232,106	222,848
<b>Capital assets:</b>		
Equipment and vehicles, less accumulated depreciation	<u>77,805</u>	<u>113,824</u>
Total assets	<u>\$ 309,911</u>	<u>\$ 336,672</u>
 <b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 40,699	\$ 33,032
Due to State	<u>2,586</u>	<u>2,586</u>
Total current liabilities	<u>43,285</u>	<u>35,618</u>
<b>Net assets:</b>		
Invested in capital assets	77,805	113,824
Unrestricted	<u>188,821</u>	<u>187,230</u>
Total net assets	<u>\$ 266,626</u>	<u>\$ 301,054</u>

**LENAWEE TRANSPORTATION CORPORATION**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

**For the Years Ended September 30, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
Operating revenues		
Demand response/semi-fixed	\$ 35,263	\$ 34,728
Contract fees	<u>108,080</u>	<u>116,571</u>
Total operating revenue	<u>143,343</u>	<u>151,299</u>
Regular service expenses (Schedule 4E(REG)	486,280	522,793
JARC service expenses (Schedule 4E (JARC)	<u>70,818</u>	<u>17,620</u>
Total expenses	<u>557,098</u>	<u>540,413</u>
Operating loss	<u>(413,755)</u>	<u>(389,114)</u>
Nonoperating revenue		
County operating assistance	44,875	60,138
South Central Michigan Works (JARC)	41,978	
State operating assistance (ACT 51)	174,955	175,134
Federal contracts		
Section 5311 (operating)	75,453	75,344
Section 5311 (reimbursed maintenance)	7,520	10,425
Section 5311 (capital)		3,500
Section 5316 (operating)	28,840	
RTAP	649	785
Other revenue		
Interest income	5,057	3,814
Sale of bus	<u>          </u>	<u>495</u>
Total operating revenue	<u>379,327</u>	<u>329,635</u>
Net loss	(34,428)	(59,479)
Net assets – beginning of year	<u>301,054</u>	<u>360,533</u>
Net assets – end of year	<u><u>\$ 266,626</u></u>	<u><u>\$ 301,054</u></u>

**LENAWEE TRANSPORTATION CORPORATION**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended September 30, 2007 and 2006**

**INCREASE (DECREASE) IN CASH**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>Cash flows from operations:</b>		
Cash received from farebox and contracts	\$ 137,972	\$ 156,537
Cash paid to suppliers and employees	<u>(469,687)</u>	<u>(441,996)</u>
Net cash used in operating activities	<u>(331,715)</u>	<u>(285,459)</u>
<b>Cash flows from investing and related financing activities:</b>		
Purchase of capital assets		(5,192)
Capital grants		3,500
Operating grants	364,749	301,744
Interest income	5,057	3,914
Other revenue	<u>          </u>	<u>495</u>
Net cash provided by investing and related financing activities	<u>369,806</u>	<u>304,461</u>
Net increase (decrease) in cash	38,091	19,002
Cash at beginning of year	<u>118,242</u>	<u>99,240</u>
Cash at end of year	<u><u>\$ 156,333</u></u>	<u><u>\$ 118,242</u></u>

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired.



LENAWEE TRANSPORTATION CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED IN OPERATING ACTIVITIES

	<u>2007</u>	<u>2006</u>
Operating loss	\$ (413,755)	\$ (389,114)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	36,019	92,120
(Increase) decrease in:		
Accounts receivable	(5,371)	5,238
Prepaid expense	43,725	(2,137)
(Decrease) increase in:		
Accounts payable and accrued liabilities	<u>7,667</u>	<u>8,434</u>
Total adjustments	<u>82,040</u>	<u>103,655</u>
Net cash used in operating activities	<u>\$ (331,715)</u>	<u>\$ (285,459)</u>

**LENAWEE TRANSPORTATION CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For financial reporting purposes, Lenawee Transportation Corporation (LTC) includes all funds and accounts that are controlled by the Corporation.

Lenawee Transportation Corporation is a primary governmental unit with no outside component units.

Lenawee Transportation Corporation is a Corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by its own board whose members are appointed by the Lenawee County Board of Commissioners. The Corporation receives a portion of its funding from Lenawee County. Lenawee Transportation Corporation has a contract with Lenawee County to operate a transportation system in the County.

The accounting policies of Lenawee Transportation Corporation conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective October 1, 2003, Lenawee Transportation Corporation implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

**Basic Financial Statements – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets) report information on the activities of the Corporation. Lenawee Transportation Corporation consists solely of a business-type activity; no governmental-type activity exists.

The financial statements are provided for the business-type fund which is the same as the governmental-wide financial statements.

The major individual fund (General Operating Fund) is reported in the financial statements.

**LENAWEE TRANSPORTATION CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

LTC uses the accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available for use in current operations. Expenses are recorded when the liability is incurred.

LTC accounts for its operations in a manner similar to private business enterprises, where the intent of LTC is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis are financed through user charges, State and Federal grants, and County support. LTC is deemed to be an enterprise fund.

**Cash and Investments** – Cash and cash investments are considered to be cash on hand, demand deposits, and short-term investments (certificates of deposit) with a maturity of three months or less when acquired.

**Fixed Assets and Depreciation** – Fixed assets are stated at cost. Cost relating to maintenance and repairs are charged to expense. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

**Estimates** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2: CONTRACT WITH SERVICE PROVIDER**

Lenawee Transportation Corporation has contracted with Quick Service Transportation Company of Adrian, Michigan to operate the Lenawee Transportation system. The Corporation pays Quick Service \$338 per month for rental of a dispatch center and \$1,750 per month for administrative duties in fiscal year 2006-07, and makes reimbursement for all direct expenses of the Lenawee Transportation operation. The contract is renewed annually, including amendments for negotiated changes.

**NOTE 3: CASH**

At year end, the carrying value of the bank account was \$58,427 the bank balance was \$63,896 is fully insured by federal depository insurance. Also, there is a certificate of deposit of \$97,906, which is fully insured by federal depository insurance.

Lenawee Transportation Corporation invests only in instruments allowed under state law.

Lenawee Transportation limits its exposure to interest rate risk and credit rate risk by investing in conservative instruments like certificates of deposits with terms of six months or less. All investments are fully covered by federal depository insurance and so there is no exposure to custodial credit risk.

LENAWEE TRANSPORTATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE 4: CAPITAL ASSETS**

Vehicles are stated at cost or fair market value at date of gift. The vehicles in use by the Lenawee Transportation program are purchased by the State. If the program should end, the vehicles would be returned to the State. The buses are depreciated over five years on a straight line basis. Rehabilitation costs of vehicles have also been capitalized and depreciated.

Computer equipment and radios have also been received from the State and are being depreciated over six and ten years, respectively, on a straight line basis.

Property assets on the balance sheet at September 30, 2007 and 2006 are:

	<u>Purchased with Capital Grants</u>	
	<u>2007</u>	<u>2006</u>
Equipment	\$ 95,315	\$ 95,315
Vehicle cost	<u>789,164</u>	<u>789,164</u>
	884,479	884,479
Less: Accumulated depreciation	<u>806,674</u>	<u>770,655</u>
Property assets	<u>\$ 77,805</u>	<u>\$ 113,824</u>

**NOTE 5: PENSION PLAN**

The Coordinator of Lenawee Transportation Corporation is covered by the defined benefit pension plan of Lenawee County - the Lenawee County Board of Commissioners Employees' Retirement Income Plan. Full disclosure of this plan is provided in the County of Lenawee's financial statements for the year ended December 31, 2006.

# **LENAWEE TRANSPORTATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**September 30, 2007**

### **NOTE 5: PENSION PLAN (Continued)**

Lenawee Transportation Corporation has made its required pension contributions to the County. The contribution for the year ended September 30, 2007 was \$6,793.

Employees of Quick Service are covered by a defined contribution pension plan using IRA accounts. However, no employees of Quick Service related to Lenawee Transportation are participating in this Plan.

### **NOTE 6: SICK AND VACATION PAY**

Under existing general County rules and regulations, as a regular employee, the Coordinator accumulates eight (8) hours combined sick and vacation time for each two-week period. All accrued leave time will be paid by the County at time of termination or retirement in accordance with County policy. An accrual for unpaid leave time has been recorded at September 30, 2007 for \$4,566, which is included in accounts payable and other accrued liabilities on the statement of net assets.

### **NOTE 7: TRANSPORTATION AGREEMENT AND COST ALLOCATIONS**

LTC provides semi-fixed route service to Lenawee County residents. The City of Adrian operates a separate service for City residents only. On September 17, 1984, LTC and the City of Adrian entered into an agreement to provide public transportation to both service areas by sharing in a transportation coordinator, clerical and support assistance, and office space.

Under the agreement, LTC pays the wages and fringe benefits of the transportation coordinator, and the City of Adrian provides the clerical and support assistance, and office space for LTC.

A formula has been worked out for the allocation of costs between Lenawee Transportation Corporation and the City of Adrian. This formula or allocation plan has been accepted by the Michigan Department of Transportation. Based on this plan, the allocated costs have been determined for the year. The difference in the allocated costs between the two units has been set up as a receivable or payable by the applicable unit. Also, in the settlement of eligible grant expenses (see Schedule 5) adjustments have been made for the allocation of administrative costs.

The cost allocation for the JARC project is approved under contract 2007-0243/Z002 with the Michigan Department of Transportation.

## LENAWEE TRANSPORTATION CORPORATION

## NONURBAN SERVICE REVENUE REPORT

For the Years Ended September 30, 2007 and 2006

	<u>Regular Service</u>	<u>JARC</u>	<u>Total</u>
Farebox revenue			
Demand response/semi-fixed	\$ 35,263	\$	\$ 35,263
Contract fares	108,080		108,080
Local revenue			
County operating assistance	44,875		44,875
South Central Michigan Works		41,978	41,978
State formula and contracts			
State operating assistance (ACT51)	174,955		174,955
Federal Contracts			
Section 5311 (operating)	75,453		75,453
Section 5311 (reimbursed maintenance)	7,520		7,520
Section 5316 (operating)		28,840	28,840
RTAP	649		649
Other revenue			
Interest income	<u>5,057</u>	<u>          </u>	<u>5,057</u>
Total Revenue	<u>\$ 451,852</u>	<u>\$ 70,818</u>	<u>\$ 522,670</u>

**SCHEDULE 2**

**LENAWEE TRANSPORTATION CORPORATION**

**EXPENDITURES OF FEDERAL AND STATE GRANTS**

**For the Year Ended September 30, 2007**

GRANTOR/PROGRAM TITLE	Federal CFDAs Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Award Amount Remaining
				Total	Federal	State	Local	
<b>U.S. Department of Transportation</b> Passed through Michigan Department of Transportation Federal Transit Administration Operating Assistance-Section 5311 Capital Grant – Section 5311 Capital Grant – Section 5311 Capital Grant – Section 5311	20.509	2007-0243	Formula	\$ 74,637	\$ 74,637	\$ -	\$ -	\$ -
	20.509	2002-0059/Z14	22,000	2,075	2,075	-	13,925	6,000
	20.509	2002-0059/Z17	188,000	-	-	-	-	188,000
	20.509	2002-0059/Z7/R1	18,000	5,445	4,356	1,089	3,761	8,794
Operating Assistance (JARC)-Section 5316 Rural Transit Assistance Program (RTAP)	20.516	2007-0243/Z002	28,840	28,840	14,420	14,420	41,978	-
	20.215	N/A	3,000	649	649	-	-	-
<b>Michigan Department of Transportation</b> Operating Assistance – Act 51 – Nonurban	N/A	2007-0243	Formula	174,955	-	174,955	-	-
<b>Totals</b>				\$ 286,601	\$ 96,137	\$ 190,464	\$ 41,978	\$ 202,794

## LENAWEE TRANSPORTATION CORPORATION

## EXPENSES BY GENERAL AND CONTRACT OPERATIONS

For the Year Ended September 30, 2007  
 With Comparative Totals for the Year Ended September 30, 2006

	<b>Nonurban General Operations</b>	<b>JARC Section 5316 2007-243/Z002</b>	<b>2007 Total</b>	<b>2006 Total</b>
Labor	\$ 213,040	\$ 31,864	\$ 244,904	\$ 213,496
Fringe benefits	51,833	23,844	75,677	52,220
Services	37,692	675	38,367	30,759
Materials and supplies consumed	93,783	5,726	99,509	90,428
Miscellaneous	3,679		3,679	3,463
Utilities	9,035	1,781	10,816	10,719
Casualty and liability insurance cost	37,880	6,192	44,072	43,166
Leases and rentals	3,319	736	4,055	4,043
Depreciation	<u>36,019</u>		<u>36,019</u>	<u>92,120</u>
	<u>\$ 486,280</u>	<u>\$ 70,818</u>	<u>\$ 557,098</u>	<u>\$ 540,414</u>



## LENAWEE TRANSPORTATION CORPORATION

## NONURBAN REGULAR SERVICE EXPENSE REPORT

For the Year Ended September 30, 2007  
 With Comparative Totals for the Year Ended September 30, 2006

				2007		2006
	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>	<u>Budget</u>	<u>Total System</u>
<b>Labor:</b>						
Operators' wages	\$ 115,944	\$	\$	\$ 115,944	\$ 109,000	\$ 117,814
Other salaries and wages	53,498		43,599	97,097	93,450	95,681
Fringe benefits	25,418		26,415	51,833	49,275	52,220
<b>Services:</b>						
Other services	4,103	30,244	3,345	37,692	34,450	30,758
<b>Materials and supplies consumed:</b>						
Fuel and lubricants	59,388			59,388	50,000	61,695
Tires and tubes	7,250			7,250	4,340	10,863
Other materials and supplies	450	26,643	52	27,145	20,800	17,870
<b>Miscellaneous:</b>						
Travel and meetings			2,211	2,211	2,500	2,006
Advertising			817	817	950	297
Other	555		95	650	1,000	1,160
Utilities	9,035			9,035	8,750	10,719
<b>Casualty and liability cost:</b>						
Premium for public liability and property damage insurance	37,436		444	37,880	48,275	43,166
Leases and rentals	3,319			3,319	4,200	4,044
Depreciation	<u>36,019</u>	<u>          </u>	<u>          </u>	<u>36,019</u>	<u>          </u>	<u>92,120</u>
Total expenses	352,415	56,887	76,978	486,280	426,990	540,413
RTAP expenses	<u>          </u>	<u>          </u>	<u>(649)</u>	<u>(649)</u>	<u>          </u>	<u>(785)</u>
General operating expenses	<u>\$ 352,415</u>	<u>\$ 56,887</u>	<u>\$ 76,329</u>	<u>\$ 485,631</u>	<u>\$ 426,990</u>	<u>\$ 509,630</u>

## LENAWEE TRANSPORTATION CORPORATION

## JARC SERVICE EXPENSE REPORT

For the Years Ended September 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>2007 Total</u>
<b>Labor:</b>				
Operators' wages	\$ 29,264	\$	\$	\$ 29,264
Other salaries and wages	2,600			2,600
Fringe benefits	23,844			23,844
<b>Services:</b>				
Other services	149	526		675
<b>Materials and supplies consumed:</b>				
Fuel and lubricants	4,616	209		4,825
Tires and tubes	349			349
Other materials and supplies	380	172		552
Utilities	1,781			1,781
<b>Casualty and liability cost:</b>				
Premium for public liability and property damage insurance	6,192			6,192
Leases and rentals	<u>736</u>	<u>          </u>	<u>          </u>	<u>736</u>
Total expenses	<u>\$ 69,911</u>	<u>\$ 907</u>	<u>-</u>	<u>\$ 70,818</u>

**LENAWEE TRANSPORTATION CORPORATION**  
**NONURBAN SERVICE NONFINANCIAL REPORT**

**For the Year Ended September 30, 2007**

	<u>Regular Service</u>		<u>JARC</u>	
	<u>Transportation Mileage</u>	<u>Weekday Hours</u>	<u>Transportation Mileage</u>	<u>Weekday Hours</u>
<b><u>Demand – Response</u></b>				
First Quarter	52,300	2,280	9,214	373
Second Quarter	51,826	2,230	11,155	456
Third Quarter	53,771	2,324	11,622	428
Fourth Quarter	<u>51,014</u>	<u>2,267</u>	<u>11,391</u>	<u>475</u>
Total operation	<u>208,911</u>	<u>9,101</u>	<u>43,382</u>	<u>1,732</u>

The methodology used for compiling mileage and hours has been reviewed and found to be an adequate method for recording vehicle mileage and hours.

## LENAWEE TRANSPORTATION CORPORATION

## OPERATING ASSISTANCE CALCULATION

For the Year Ended September 30, 2007

	<b>Federal Section 5311 2007-0243 <u>10-1-06 to 9-30-07</u></b>	<b>State Operating Assistance <u>10-1-06 to 9-30-07</u></b>
<b>Expenses:</b>		
Labor	\$ 244,904	\$ 244,904
Fringe benefits	75,677	75,677
Services	38,367	38,367
Materials and supplies	99,509	99,509
Miscellaneous	3,679	3,679
Utilities	10,816	10,816
Casualty and liability costs	44,072	44,072
Leases and rental	4,055	4,055
Depreciation	<u>36,019</u>	<u>36,019</u>
Total expenses	557,098	557,098
<b>Ineligible expenses:</b>		
Less: Depreciation	(36,019)	(36,019)
Less: Audit fee	(3,050)	
Less: RTAP reimbursement	(649)	(649)
Less: JARC	(70,818)	(70,818)
Less: Capital grant reimbursing operating expense	<u>(7,520)</u>	<u>(7,520)</u>
Net eligible expenses	<u>439,042</u>	<u>442,092</u>
Section 5311- Reimbursement – 17%	<u>\$ 74,637</u>	
State Operating Assistance – 38.6208% of eligible expenses or minimum floor - FY 1997 Act 51- \$174,955		<u>\$174,955</u>

**LENAWEE TRANSPORTATION CORPORATION**  
**NOTES OF INELIGIBLE EXPENSES AND REVENUES**  
**For the Year Ended September 30, 2007**

**DEPRECIATION**

Depreciation accrued by public operations is ineligible according to UMTA 9050.1A, page V-4.

**RTAP REIMBURSEMENT**

Expenses reimbursed on RTAP Program are not eligible costs under Act 51 and Federal Section 5311.

**AUDIT FEE**

Any transit agency that expends less than \$500,000 in Federal Funds must subtract their annual audit fee from eligible expenses under Section 5311.

**CAPITAL GRANTS USED FOR OPERATING EXPENSES**

Capital money used to pay for maintenance expenses are subtracted from eligible expenses.

**JARC PROGRAM**

Expenses related to the JARC Program are subtracted out as ineligible.

**LENAWEE TRANSPORTATION CORPORATION**

**COMMENTS AND RECOMMENDATIONS**

**For the Year Ended September 30, 2007**

Significant findings in internal control are found on pages 5 and 6 of this report. No other comments or recommendations were made for September 30, 2007.